



December 1995

FORMER SOVIET UNION

An Update on Coordination of U.S. Assistance and Economic Cooperation Programs



19960301 080

Dec 95

National Security and
International Affairs Division

B-270020

December 15, 1995

Congressional Committees

Former Soviet Union:
An Update on
Coordination of U.S.
Assistance and
Economic Cooperation
Programs

In February 1995, we reported that the executive branch lacked an effective coordination mechanism for U.S. bilateral programs designed to help the newly independent states of the former Soviet Union (FSU) transform their centrally controlled economies into market-based economies and to establish more democratic governments.¹ Specifically, we reported that the State Department Coordinator's authority was weak and that the U.S. Agency for International Development (USAID) and the other agencies using Freedom Support Act² funds were frequently embroiled in disputes about implementation of their programs. Officials representing several agencies acknowledged the problems we reported. State and USAID officials subsequently testified to Congress that coordination and interagency working relationships had improved.

This report (1) assesses efforts to strengthen the Coordinator's authority over bilateral FSU programs but identifies a new challenge to the Coordinator's authority and (2) analyzes the impact of changes in USAID's relationships with other agencies on interagency cooperation in implementing Freedom Support Act programs. We are sending this report to those committees that have primary responsibility for the U.S. assistance program to the FSU.

Results in Brief

Since our February 1995 report, the FSU Coordinator's role has been expanded to include oversight of all U.S. government bilateral programs in the FSU, and his authority to review budgets and direct the interagency process for program development and implementation has been strengthened. Despite this, the Coordinator has been unable to effectively exercise his authority to oversee the FSU anticrime program being financed with Freedom Support Act funds.

Interagency cooperation in implementing Freedom Support Act programs has improved, with fewer disagreements on program content.

¹Former Soviet Union: U.S. Bilateral Program Lacks Effective Coordination (GAO/NSIAD-95-10, Feb. 7, 1995).

²Formally referred to as the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (P.L. 102-511).

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Background

In December 1990, the United States began to provide limited assistance to the Soviet Union to show support for reform efforts. Following the dissolution of the Soviet Union in December 1991, the United States increased its commitments of assistance to the successor states. In October 1992, the Freedom Support Act was enacted, again increasing assistance to the FSU and establishing a multiagency approach to providing assistance. The act called for the appointment of a Coordinator within the Department of State whose responsibilities would include designing an assistance and economic cooperation strategy for the FSU and ensuring program and policy coordination among federal agencies in carrying out the Freedom Support Act policies.

The act sets forth the broad policy outline for helping the FSU countries implement both political and economic reforms. It also authorizes a bilateral assistance program that is primarily being implemented by USAID. In addition, other legislation authorized bilateral programs, including loan and loan guarantees to promote the export of agricultural and other products, and assistance in dismantling nuclear weapons in the FSU.

Twenty-three government agencies have obligated \$5.4 billion for grant technical assistance programs, exchange programs, training, food and commodity donations, mutually beneficial science and technology projects, and support of joint space efforts. Two programs—the Freedom Support Act Program and the Cooperative Threat Reduction Program—represent nearly half the obligations for grants for technical assistance, exchanges, and other grant-funded programs. The U.S. government also made available \$10 billion in credit for bilateral loans, loan guarantees, and insurance programs for the period fiscal year 1990 through December 1994.³ Trade and investment programs sponsored by the Department of Agriculture, the Export-Import Bank, and the Overseas Private Investment Corporation constitute most of the credit/insurance programs.

³Former Soviet Union: Information on U.S. Bilateral Program Funding (GAO/NSIAD-96-37, Dec. 15, 1995).

The Coordinator's Role Has Been Strengthened, but Improvements Needed in Anticrime Programs

On April 4, 1995, the President strengthened the role and authority of the Coordinator in a memorandum designating him as a Special Advisor to the President and to the Secretary of State on assistance to the FSU.⁴ The memorandum specifies that the Coordinator will

“preside over the allocation of U.S. assistance resources and direct and coordinate the interagency process on the development, funding, and implementation of all U.S. Government bilateral assistance and trade and investment programs related to the NIS [New Independent States].”

The memorandum further specifies that to enable the Coordinator to effectively carry out his responsibilities

“the Departments of Defense, Treasury, Justice, Commerce, Agriculture, Health and Human Services, and Energy, the Agency for International Development, the United States Information Agency, Peace Corps, Environmental Protection Agency, National Aeronautics and Space Administration, Nuclear Regulatory Commission, Overseas Private Investment Corporation, Trade and Development Agency, and Export-Import Bank, and any other Executive departments and agencies with activities related to the NIS bilateral assistance and export and import activities are directed, to the extent permitted by law, to bring all programs and budget plans for such assistance and activities to [the Coordinator] for review before submission to the Office of Management and Budget and before implementation. [The Coordinator] shall be responsible for ensuring that all such plans are consistent with Administration priorities and policies.”

This charter explicitly expanded the Coordinator's role in overseeing other agencies' programs, such as the Department of Defense's Cooperative Threat Reduction Program and the Export-Import Bank's trade and investment programs.

Even though the FSU Coordinator's role and authority have been expanded, the Coordinator has had no control over the FSU anticrime assistance program. Rather, the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL)⁵ controls the program, and disagreements between the Coordinator and INL have inhibited the development of an integrated approach to anticrime assistance in the FSU. For example, in May 1994, the Coordinator noted that INL had suggested funding levels to a key congressional committee before discussing the

⁴The initial May 19, 1993, Coordinator's Charter had been signed by the Assistant to the President for National Security Affairs and specified that the Coordinator would report to the Ambassador-at-Large and a Special Assistant to the President.

⁵The Bureau for International Narcotics Matters was renamed the Bureau for International Narcotics and Law Enforcement Affairs in February 1995.

matter with the Coordinator or the Russian government. He also stated that INL had requested proposals from law enforcement agencies before the Coordinator had determined an effective policy framework for assistance.

Other documents as recent as June 1995 show the Coordinator's continued unsuccessful efforts to integrate INL activities into overall reform programming. Both INL and the Coordinator have working groups responsible for planning assistance in the anticrime area. While the chair of each working group participates in the other group's meetings, relationships between the two working groups have been strained. More importantly, however, the anticrime working groups have not integrated their programs with activities involving banking reforms, privatization, and capital markets development, all areas susceptible to criminal corruption.

Cooperation and Coordination Among Agencies Has Improved

In February 1995, we reported a pattern of disputes centering on money and policy between USAID and other agencies involved in implementing Freedom Support Act activities in the FSU. Dissension had arisen partly because (1) USAID attempted to exclude other agencies from taking part in FSU programs by not providing funds and (2) agencies perceived that they were relegated to the role of a contractor. Since that time, relations among the agencies have improved, largely because of a change in the way funds are transferred and USAID's efforts to engender cooperation and coordination from other agencies.

USAID's Relationship With Agencies Varies With the Type of Transfer Agreement

USAID is the primary implementing agency for assistance, although it also acts as a bank through which the State Department Coordinator distributes money. USAID participates to varying degrees in all sectoral working groups for FSU assistance. It also receives and reviews proposals for projects from U.S. government agencies and independent contractors and advises the Coordinator in the selection of projects. USAID mission and headquarters officials meet with officials of the FSU to gather information and strongly influence project development. USAID is also accountable for ensuring that (1) funds are properly transferred to other agencies through the appropriate transfer mechanism, (2) the proper Treasury accounts are being used to effect a transfer, and (3) transfers are accurately reported.

USAID transfers or allocates money to an agency by an agreement authorized under either section 632(a) or section 632(b) of the Foreign

Assistance Act.⁶ When USAID transfers or allocates funds under section 632(a), USAID's agreement with the recipient agency does not obligate the funds. The recipient agency, then, obligates and expends the funds in accordance with (1) authority governing its own activities, (2) authorities granted in the Foreign Assistance Act, or (3) a combination of these authorities. For example, in making procurements, an agency may follow its own or USAID's regulations. Under this type of agreement, USAID has minimal management responsibility for approving the agency's activities.

On the other hand, USAID agreements made under section 632(b) directly obligates the funds to the recipient agency and USAID retains greater control over how the funds are used and accounted for. USAID and the recipient agency negotiate what the agency is to do under the program, and the agreement usually requires that the recipient agency follow USAID's procurement rules. Under this type of agreement, the recipient agency either requests an advance or reimbursement for actual services rendered. USAID also obligates funds to agencies carrying out FSU programs under a Participating Agency Service Agreement (PASA) and is responsible for requesting the participating agency's services.

USAID and Agencies Have Worked to Better Their Relations

Our February 1995 report pointed out that the Coordinator's role had been complicated by the existence of serious disagreements between agencies over various aspects of the program. Also, USAID had been involved in numerous disputes with other government agencies over money and policy. To test whether interagency relationships had changed, we reviewed the relationship of USAID with 10 agencies, with a focus on 11 interagency transfers made after May 1994. In these cases, we found that the agencies cooperated and coordinated better than they had in the past, and there was less acrimony involved in implementing programs in the FSU. Several factors led to this change. For example, USAID has made greater use of section 632(a) transfers, where the State Department Coordinator, rather than USAID, reviewed and approved the implementing agency's plans for program funding, content, and implementation. Moreover, USAID has taken the lead in establishing more cooperative relationships than it has had in the past.

Leadership by the USAID Assistant Administrator for Europe and the New Independent States, and USAID's control over program content, funding, and implementation of projects in certain sectors, such as agriculture and the environment, have reduced disagreements. In these and other sectors,

⁶See 22 U.S.C. 2392(a) and (b).

USAID has used section 632(b) transfer authority or a PASA to carry out its own, rather than the implementing agency's, program priorities. As noted previously, under a 632(b) transfer agreement or a PASA, USAID as the accountable agency, sets standards and imposes its judgments about project planning and implementation of its sector strategies. Although the implementing agencies have at times disagreed with USAID's decisions on funding and priorities, they have largely stopped protesting those decisions to the Coordinator as they did in the early days of the FSU program. According to officials at two agencies, it was not worth their effort to raise the disputes with USAID to a higher level.

Agency Comments and Our Evaluation

The Departments of State, Agriculture, Commerce, Defense and Energy; the Environmental Protection Agency; the Food and Drug Administration; the Overseas Private Investment Corporation; the Peace Corps; the Trade and Development Agency; the U.S. Information Agency; the Centers for Disease Control and Prevention (CDC); and USAID were provided an opportunity to comment on a draft of this report. State and USAID provided written comments (reprinted in their entirety in appendixes I and II, respectively), and the Department of Energy and CDC provided oral comments, which have been incorporated in the report as appropriate.

The agencies commenting on this report generally agreed that (1) coordination had improved, (2) the Coordinator's role had been strengthened, and (3) cooperation among implementing agencies had improved. USAID indicated that it supported the report's findings and conclusions. State acknowledged that serious friction had existed between the Coordinator and INL regarding the anticrime assistance program; however, State asserted that these disagreements have been resolved. State indicated that (1) the Coordinator and INL had met and agreed upon the policy framework for law enforcement assistance funded under the Freedom Support Act and (2) staffs were working closely. However, State commented further that it is significant that "law enforcement assistance involves very different programs and pursues different aims than does the bulk of our assistance efforts."

We noted, however, that the meeting between the Coordinator and INL referred to by State occurred on October 24, 1995. Consequently, it is too early to know whether the problem State acknowledged has been resolved. Moreover, the agreed-upon policy framework State cited does not represent a plan to integrate law enforcement assistance with other assistance. Instead, the Coordinator gave to INL management responsibility

for the law enforcement component, allowing this assistance to remain distinct from other related assistance.

Scope and Methodology

We reviewed the bilateral programs for the FSU and the interagency structure for the programs' coordination over the period July 1994 through July 1995. To examine interagency relationships, we reviewed 11 USAID transfers to the following 10 agencies: the Department of Agriculture, the Department of Health and Human Services' Center for Disease Control and Food and Drug Administration, the Department of Commerce, the Department of Energy, the Environmental Protection Agency, the U.S. Information Agency, the Overseas Private Investment Corporation, the Peace Corps, and the Trade and Development Agency.

We included agencies whose relations with USAID we had examined in our previous report, agencies with trade and investment programs representing the new emphasis of the Freedom Support Act program, and agencies with particularly large transfers during the period under consideration. Except for the Commerce Department, we identified one transfer that took place from July 1994 through June 1995. We examined two transfers at the Commerce Department that were originally planned as one transfer but had been split into two separate transactions. We interviewed officials from the 10 agencies, the Coordinator's Office, and USAID about both overall interagency relationships and the particular transfers we reviewed.

We conducted our work from March to September 1995 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of State, Defense, and Agriculture; the Administrator, USAID; and the Director, Office of Management and Budget. Copies will also be made available to others on request.

Please contact me at (202)512-4128 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

A handwritten signature in black ink, reading "Harold J. Johnson". The signature is written in a cursive style with a large, stylized "H" and "J".

Harold J. Johnson, Director
International Affairs Issues

List of Addressees

The Honorable Jesse A. Helms
Chairman
The Honorable Claiborne Pell
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Mark O. Hatfield
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Benjamin A. Gilman
Chairman
The Honorable Lee H. Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

The Honorable Bob Livingston
Chairman
The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Washington, D.C. 20520

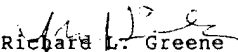
October 31, 1995

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "FORMER SOVIET UNION: Interagency Program Coordination Has Improved But Challenges Remain," GAO Job Code 711125.

If you have any questions concerning this response, please call Ms. Sandra Gust, S/NIS/C, at (202) 647-4635.

Sincerely,


Richard L. Greene

Enclosure:
As stated.

cc:
GAO - Mr. Zanardi
State/S/NIS/C - Ms. Gust

Mr. Henry L. Hinton, Jr.,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix I
Comments From the Department of State

Draft GAO Report: "FORMER SOVIET UNION: Interagency Program Coordination Has Improved But Challenges Remain," GAO Job Code 711125

The State Department office of the Special Advisor to the President and to the Secretary of State for Assistance to the New Independent States (S/NIS/C) has the following comments on the draft GAO report:

The Special Advisor's office acknowledges that in 1994, when the report was written, there were differences of opinion with State's Bureau for International Narcotics Matters (INM, later INL) on program priorities. Since that time, under a new Special Advisor, the offices have made successful efforts to forge a common approach. The new Special Advisor and the Assistant Secretary for International Narcotics and Law Enforcement Activities have met and have agreed upon the policy framework for law enforcement assistance funded under the Freedom Support Act. At the staff level, there are daily contacts to promote greater information sharing. Furthermore, both offices are working closely to ensure that the Special Advisor's mandate to provide budget oversight is carried out.

It is significant to note that cooperation with the New Independent States in the area of law enforcement involves very different programs and pursues different aims than does the bulk of our assistance efforts.

The GAO report also surmised that due to decreasing funding available under the Freedom Support Act, future assistance activities in the NIS could be funded only from within other agencies' budgets, and that scrutiny of those budgets by S/NIS/C could be more difficult. This may well be the case. The Special Advisor will under his mandate endeavor to maintain a high level of coordination and budget oversight of all assistance programs currently funded from the Freedom Support Act, and also those NIS assistance efforts under other-agency budgets and those funded under the Cooperative Threat Reduction program.

See comment 1.

The following are GAO's comments on the State Department's letter dated October 31, 1995.

GAO Comments

1. Our draft report raised a concern that the planned structuring of the former Soviet Union (FSU) program budget in fiscal year 1996 may have weakened the Coordinator's ability to successfully exercise his authority over programs funded through the Freedom Support Act. Specifically, the executive branch proposed that some FSU programs, previously under the Freedom Support Act, be funded from the agencies' own appropriations. Congress rejected the executive branch's proposal¹ and, accordingly, we have deleted our discussion of this issue from the report.

¹See "Joint Explanatory Statement" to the Conference Report on H.R. 1868, making appropriations for foreign operations for fiscal year 1996. (H. Rept. 104-295 at pages 45-46)(1995).

Comments From the Agency for International Development



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OCT 24 1995

Mr. Harold J. Johnson
Director
International Affairs Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Johnson:

The U.S. Agency for International Development (USAID) appreciates the opportunity to review and comment on the final draft of the report, *Interagency Coordination of Assistance and Cooperative Programs Has Improved*. We support the reports findings and conclusions, and note that there are no recommendations for follow-up implementation.

USAID has taken several steps over the past year to streamline our coordination with other U.S. government agencies working on assistance in the former Soviet Union, steps which this report highlights. We are committed to continuing this productive relationship with other agencies, and will continue to seek out ways to ensure that coordination produces results in terms of program objectives.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry Byrne".
Larry Byrne
Assistant Administrator
for Management

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

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